How bank de-risking is hampering Hong Kong's ambition

The difficulty in the simple task of opening a bank account in Hong Kong is adversely affecting business opportunities – and threatens its potential as a competitive international financial centre.

A number of banks in Hong Kong – including the top end of the market – are adopting a 'de-risking' and 'de-banking' approach that is hampering the ability of financial and advisory firms to get set up and running.

A policy which is effectively preventing newcomers or smaller companies from opening bank accounts is therefore damaging the competitive of a financial centre that prides itself on being competitive on an international stage.

In shunning those types of firms in many cases, those banks are suggesting that they only feel comfortable working with more established institutions.

These are some of the views of many respondents to a recent Hubbis survey of over 50 leading wealth planning and structuring professionals in Hong Kong and Singapore. It's a classic Catch 22 problem: to open a bank account, a client needs to prove existing business. But to prove existing business, the client needs to show past customer payments. To receive past customer payments, the client needs to open a bank account.

EVALUATING RISK

A key issue, say many industry practitioners, is that a lot of banks in Hong Kong are not dealing reasonably with so-called 'client risk' on a case-by-case basis.

This kind of approach is not in keeping with the dynamic, fast-moving environment of structuring HNW and UHNW assets.

And, ultimately, the more narrow-minded banks – and jurisdictions – will suffer in the long run.

IAN BLACK
AAM Advisory

"Banks need to get better at understanding risk and gathering relevant information about the source of wealth, funds and tax residence," says Peter Triggs, managing director, regional wealth planning at DBS Bank. "They should not become paralysed when judgement calls need to be made. They need to revise their internal processes," he adds. Another senior trust professional adds that it is the facts on each individual client's circumstances which should matter when a bank assesses the opening of an account.

Broad applications policy such as "we no longer open bank accounts for BVI companies" are clearly not in the interests of anyone.

In short, it seems, instead of managing risk, most banks are trying to avoid risk.

HIGH OPERATIONAL COSTS

A senior lawyer who responded to the survey believes that the process of opening a bank account is too cumbersome and inefficient.

issue for any financial centre. "To invest and/or to do business, you need a bank account.

If the client has had good advice, understands the purpose of the structure and is dealing with a good quality financial intermediary and relationship manager, then they will be able to open their account.

If any of those components are missing, then the process will be frustrating," explains Andrew Niles, business development director, Intertrust Guernsey. Indeed, the difficulties that many people have experienced recently with opening bank accounts in Hong Kong are damaging its reputation in this way.

WILLIAM AHERN
Family Capital Conservation

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The pitfall of this is that it increases operational costs for banks and other financial institutions, as well as clients and their advisers – further increasing the cost of business for everyone.

While larger companies have little problem in setting up bank accounts, it is a puzzle for the smaller firms to do the same.

COMPETITIVE DAMPENER

Not being able to open bank accounts quickly and efficiently is clearly an

Industry practitioners believe that if the local market is to maintain its reputation as a key financial hub, resolving this issue is of paramount importance.

Evidence of this is the fact that Singapore seems to present an easy alternative. Says Ian Black, head of wealth solutions at AAM Advisory: "We have had no problems when opening bank accounts in Singapore, provided the client is referred by someone known to the institution and the funds can be shown to be clear and clean."

WORRYING TREND

Perhaps most concerning for some practitioners is that fact that many banks across a number of jurisdictions also seem to be adopting similar practices in response to the issues of tax compliance and transparency in the wake of the Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI).

Even still, Hong Kong seems to have taken a rather strong stand with regards to these initiatives.

"[The situation is] bad everywhere; but it is especially bad in Hong Kong," says William Ahern, principal at Family Capital Conservation.

"Any respectable jurisdiction that can resolve this problem will be able to do well in the current era of changing regulations." ■